



# **BOARD AUDIT COMMITTEE CHARTER**

## Document Control

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## TABLE OF CONTENTS

POLICY STATEMENT .....	4
1. Overall Purpose / Objectives .....	4
2. Authority .....	5
Access .....	5
3. Organisation .....	5
Membership .....	5
Meetings and Attendance .....	6
Voting .....	7
Conflicts of Interest .....	7
4. Roles and Responsibilities .....	7
Internal Control .....	7
Financial Reporting .....	8
Internal Audit .....	9
External Audit .....	10
Operational Efficiency and Cost Control .....	10
Reporting Responsibilities .....	11
Other Responsibilities .....	11
AMENDMENTS TO THIS CHARTER .....	12

# **BANK OF SOUTH PACIFIC LIMITED BOARD AUDIT COMMITTEE CHARTER**

## POLICY STATEMENT

It is the policy of the Bank of South Pacific Limited and its subsidiaries (“BSP” or the “Group”) to maintain and fully support the Board Audit Committee as an independent appraisal function to:

- Review and monitor all of the audit activities in all of the operational areas of the BSP Group.
- Review whether such activities/ operations are in compliance with overall BSP policies, procedures and properly approved plans and objectives plus monitor the effectiveness of internal controls and effectiveness of risk controls that are in place.

### 1. Overall Purpose / Objectives

The Board Audit Committee ("BAC" or “the committee”) of Bank of South Pacific Limited ("BSP or the Group") will assist the directors in discharging the Board’s responsibilities of oversight and governance in relation to financial and audit matters.

The responsibilities of the BAC are to review and monitor the following processes:

- the integrity of BSP’s financial statements and the independent audit thereof,
- the financial reporting principles and policies, controls and procedures
- the Group’s internal audit processes,
- the effectiveness of internal controls,
- the systems for ensuring operational efficiency and cost control,
- the systems for approval and monitoring of expenditure including capital expenditure.

In performing its duties, the BAC will maintain effective working relationships with the Board, senior executive management, and the internal and external auditors. To perform his or her role effectively, each committee member will obtain an understanding of the detailed responsibilities of committee membership as well as the Group's business and operations.

## 2. Authority

The Committee reports to the Board. The external auditor reports to the Committee and the Board. The internal auditor reports to the Committee for audit purposes.

The Board authorises the BAC, within the scope of its responsibilities and charter, to:

- Seek any information or explanation it requires from external parties and/ or any employee (and all employees are directed to co-operate with any request made by the BARCC).
- Obtain outside legal or other professional advice as necessary to assist the committee.
- Ensure the attendance of BSP officers at scheduled committee meetings as deemed appropriate.

### Access

The Committee has unrestricted access to all records and staff of the BSP Group (including internal audit and the external auditor without management present) and has the right to seek explanations and additional information from management and auditors.

## 3. Organisation

### Membership

1. Members of the Committee will be formed from amongst the non-executive Directors, excluding the Chairman. The Committee shall have a minimum of three non-executive Directors, the majority of whom must be independent. The Board may appoint to the Committee additional non-executive non-Directors with specialised skills to assist the Committee.
2. Membership will be reviewed annually by the BSP Board.
3. Each member must be capable of making a valuable contribution to the committee. Each member must have a working familiarity with general finance and accounting practices.
4. The Chairman of the Committee will be an appropriately experienced independent non-executive Director, other than the Chairman of the Group Board and will be appointed by the Group Board.
5. A quorum for any meeting must be a minimum of two (2) members.

6. The secretary of the Committee shall be a representative from the BSP Group Company Secretariat or such other person as nominated by the Committee.
7. The effect of ceasing to be a director of the Board is the automatic termination of appointment as a member of the Committee, unless otherwise approved by the Board.
8. The Risk Committee Chair will be a member of the Audit Committee and vice versa to ensure relevant information flows between these committees

### Meetings and Attendance

9. Routine Committee meetings shall be attended by Chief Executive Officer/ Managing Director, Group Chief Financial Officer, Group Chief Risk Officer, Group Chief Operations Officer, Chief Financial Officer (PNG), Head of Group Internal Audit, Head of Group Operational Risk, Head of Compliance and AML, and Head of Information Security. Any other company directors, members of management, internal audit, operational risk and/or parties external to the BSP may be invited to attend any meeting of the committee or part thereof.
10. External auditors shall be invited to make presentations to the Committee as appropriate, and this will generally be presentations relating to their annual audit and half yearly review.
11. There shall be a minimum of 4 meetings per annum, with the schedules for such meetings established in conjunction with the establishment of Board Meeting schedules.
12. Special meetings may be convened as required. Internal audit and or the external auditors may request the committee Chairman to convene a meeting if they consider that it is necessary.
13. Should the Committee Chair be absent from the meeting, the members of the committee present at the meeting have the authority to choose one of their members to chair that particular meeting.
14. The Agenda and supporting papers will be delivered to the committee members in advance of the meeting. At the discretion of the chair of the meeting, additional papers may be tabled for discussion at the meeting.
15. The Agenda will normally comprise reports/ presentations by Internal Audit, Group Chief Financial Officer, Chief Financial Officer (PNG) and external auditors.

16. With respect to corporate governance, receive reports from major subsidiary Audit Committees, on a basis as the Committee determines within the BSP Group and respond to issues raised as appropriate.
17. The proceedings of all meetings will be minuted and after adoption by the Committee, tabled at the subsequent BAC Meeting. The committee through its Chairman, will report to the Board, at the earliest possible Board meeting after each committee meeting, any matters that should be brought to the attention of the Board and any recommendations requiring Board approval and/or action.

### Voting

Any matters requiring decision generally will be decided by consensus, or if a consensus is not achievable, then by a majority of votes of members present.

### Conflicts of Interest

Committee members and invitees will be invited to disclose conflicts of interest at the commencement of each meeting. Directors are required to disclose their interest to the Company Secretary, in accordance with the law and BSP Group's principals of corporate governance, who will maintain a register for all disclosures. Where members or invitees are deemed to have a real or perceived conflict of interest, they will be excused from committee discussions on the issue where a conflict exists.

## 4. Roles and Responsibilities

The Committee will:

### Internal Control

1. Evaluate whether management is setting the appropriate "control culture" by communicating the importance of internal controls (policies and procedures) and ensuring that all employees have an understanding of their roles and responsibilities.
2. Monitor that management is regularly reviewing its internal controls and revising Policies and Procedures where necessary.
3. Consider how management is held to account for the security of fixed assets, including computer systems and applications, and the contingency plans for processing financial information in the event of a systems breakdown.
4. Gain an understanding of whether internal control recommendations made by internal audit, operational risk and or external auditors have been implemented

by management. Reports to be provided to each committee meeting by internal audit

### Financial Reporting

#### a) *General*

5. Consider with the internal auditors, operational risk and external auditors any fraud, illegal acts, deficiencies in internal control or other similar issues and review management risk reduction policies and practices implemented as a response to individual instances/ incidents detected.
6. Review significant accounting and reporting issues, including professional and regulatory pronouncements, and understand their impact on the financial statements.
7. Inquire of management and the internal auditors, operational risk and external auditors about significant risks and exposures and the plans to minimise such risks.
8. Review any legal matters, which could significantly impact the financial statements.

#### b) *Annual Financial Statements*

9. Review the annual audited financial statements (& half yearly reviewed statements), together with the Group Chairman's Statement and any additional Management comment, and determine whether they are complete and consistent with the information known to committee members and assess whether the financial statements reflect appropriate accounting principles.
10. Pay particular attention to complex and/or unusual transactions.
11. Focus on judgmental areas, for example those involving valuation of assets and liabilities; provisions; litigation reserves; and other commitments and contingencies.
12. Meet with management and the external auditors to review the financial statements and the results of the audit.
13. Satisfy itself as to the accuracy of the financial accounts, reconcile to management accounts presented to the committee, and sign off on the financial accounts of the BSP before they are submitted to the Board.



c) *Preliminary Announcements, Interim Financial Statements, Briefings and Press Releases*

14. Assess the fairness of the preliminary statements and disclosures; obtain explanations from management and internal and external auditors on whether:

- actual financial results for the period varied significantly from budgeted or projected results.
- changes in financial ratios and relationships in the interim financial statements are consistent with changes in the BSP's operations and financing practices.
- generally accepted accounting principles have been consistently applied.
- there are any actual or proposed changes in accounting or financial reporting practices.
- there are any significant or unusual events or transactions.
- the BSP's financial and operating controls are functioning effectively.
- the preliminary announcements and interim financial statements contain adequate and appropriate disclosures.

*Internal Audit*

15. Review and approve the annual Group Internal Audit Plan to ensure it covers all material risks.

16. Review the scope of work activities of the internal audit function and ensure no unjustified restrictions or limitations are made.

17. Review the qualifications of internal audit personnel and concur in the appointment, replacement, reassignment or dismissal of the Head of Internal Audit.

18. Review the performance, objectivity, independence and effectiveness of the internal audit function.

19. Meet separately with the internal auditors to discuss any matters that the committee or the internal auditors believe should be discussed privately.

20. Ensure that significant findings and recommendations made by the internal auditors are received and discussed on a timely basis.

21. Ensure that management responds to recommendations by the internal auditors, and in a timely manner.

#### External Audit

22. Ensure the timely calling of tenders for the provision of external auditing services from appropriately qualified companies in accordance with Board policy and prudential regulations.
23. Review tender submissions and make recommendation for appointment to the Board for subsequent recommendation to shareholders.
24. Review the external auditor's terms of engagement and fees, proposed audit scope and approach and ensure no unjustified restrictions or limitations have been placed on the scope.
25. Review the performance and effectiveness of external auditors prior to contract renewal and make recommendation to the Board regarding their continuation during their term of appointment, which should be in line with the prudential requirements/ standards of the various jurisdictions that the BSP operates within, while ensuring their independence and the independence of financial service providers are in line with Board policy.
26. Meet separately with the external auditors to discuss any matters that the committee or the external auditors believe should be discussed privately.
27. Ensure that significant findings and recommendations made by the external auditors are received and discussed on a timely basis.
28. Ensure that management responds to recommendations by the external auditors and in a timely manner.

#### Operational Efficiency and Cost Control

29. Ensure that appropriate processes and authorisation limits are established and implemented by management covering all orders, contracts, payments and any other commitments entered into by the BSP.
30. Ensure the appropriateness of management procedures for the control of expenditure, including the preparation of annual budgets approved by the Board, timely production of management accounts showing actual performance against budget, and the follow up of significant variances against budget.

31. Ensure the appropriateness of management procedures for the development of capital expenditure budgets, Board approval processes, expenditure monitoring, cost over runs reporting and justification outcomes (if appropriate).

#### Reporting Responsibilities

32. Regularly update the Board about committee activities and make appropriate recommendations.
33. Ensure the Board is aware of matters in a timely manner, which may significantly impact the financial condition or affairs of the business.

#### Other Responsibilities

34. Perform other oversight functions as delegated and or requested by the Board.
35. If necessary, institute special investigations and, if appropriate, hire special counsellor experts to assist.
36. Evaluate the committee's own performance on a regular basis.

## AMENDMENTS TO THIS CHARTER

The Chairman of the Board Audit Committee shall be responsible for reviewing this document on a two year basis to keep it up to date and consistent with the Committee's authority, objectives and responsibility and recommend any proposed amendments to the Board for approval.

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